

June 14, 2001

IN RE: DOCKET NO. 2001-65-C – **BELLSOUTH
TELECOMMUNICATIONS, INC.** – Generic Proceedings to establish
prices for BellSouth Telecommunications, Inc.’s Interconnection
Services, Unbundled Network elements and other related elements and
services

**COPY OF SURREBUTTAL TESTIMONY OF DON J. WOOD, JERRY
WILLIS, MICHAEL STARKEY, DEAN FASSETT, AND PG. 17 OF
DIRECT TESTIMONY OF JERRY WILLIS ON BEHALF OF
NEWSOUTH COMMUNICATIONS, NUVOX COMMUNICATIONS,
BROADSLATE NETWORKS, ITC^DELTACOM COMMUNICATIONS,
KMC TELECOM HAS BEEN DISTRIBUTED TO THE FOLLOWING:**

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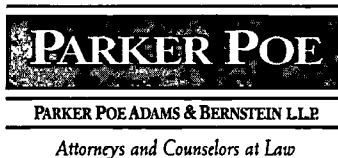
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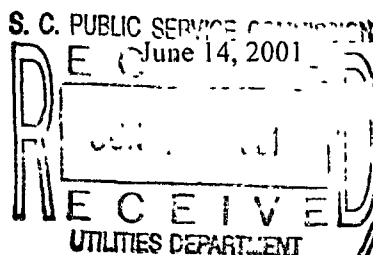
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Via Hand Delivery

Mr. Gary E. Walsh
Executive Director
South Carolina Public Service Commission
Synergy Business Park
101 Executive Drive
Columbia, SC 29210

***Re: Generic Proceeding to Establish Prices for BellSouth Telecommunications, Inc.s
Unbundled Network Elements and Other Related Elements and Services
Docket No. 2001-65-C***

Dear Mr. Walsh:

Enclosed for filing with the Commission, please find twenty-five copies of the following:

1. Surrebuttal Testimony of Don J. Wood
2. Surrebuttal Testimony of Jerry Willis
3. Surrebuttal Testimony of Michael Starkey
4. Surrebuttal Testimony of Dean Fassett (Proprietary Version)
5. Page 17 of the Direct Testimony of Jerry Willis, correcting a table which was inadvertently truncated.

I have also enclosed for filing with the Commission, fifteen (15) copies of the Public Version of the Surrebuttal Testimony of Dean Fassett for inclusion in the public file. As is the practice in this docket, the proprietary testimony should be considered to be filed under seal.

As reflected in the attached Certificate of Service, I am by copy of this letter serving all parties of record with the above testimony in accordance with whether a party has executed the proprietary agreement with BellSouth. Please call me if you have any questions. With best regards, I am

Very truly yours,

Faye A. Flowers

FAF/ccq

Enclosures

cc: Attached Service List

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Certificate of Service

The undersigned certifies that on June 14, 2001, she caused to be served the foregoing **SURREBUTTAL TESTIMONY OF DON J. WOOD, JERRY WILLIS, DEAN FASSETT, AND MICHAEL STARKEY** on all known parties of record by hand-delivery or placing a copy with Federal Express (where indicated) as follows:

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POSTED
016-14-01

BEFORE
THE PUBLIC SERVICE COMMISSION

OF SOUTH CAROLINA

DOCKET No. 2001-65-C

IN THE MATTER OF:)
)
Generic Proceeding to Establish Prices)
For BellSouth's Interconnection Services,)
Unbundled Network Elements and Other)
Related Elements and Services)
_____)

SURREBUTTAL TESTIMONY

OF DON J. WOOD

ON BEHALF OF

New South Communications, NuVox Communications, Broadslate Networks,
ITC^DeltaCom Communications, KMC Telecom

RETURN DATE: OK DBW
SERVICE: OK DBW

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Don J. Wood. My business address is 4625 Alexander Drive, Suite 125,
Alpharetta, Georgia 30022.

Q. ARE YOU THE SAME DON J. WOOD WHO FILED DIRECT TESTIMONY IN THIS
PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my testimony is to respond to certain arguments set forth in the rebuttal
testimony of BellSouth witnesses Stegeman, Caldwell, Cox, Reid, Shell, Billingsly, and
Cunningham. In each case, the testimony of the BellSouth witnesses either responds to a
point different than the one I actually made in my direct testimony or assumes facts that
are simply inaccurate.

Q. MR. STEGEMAN DESCRIBES HIS VIEW OF THE "LOOP IS A LOOP" CONCEPT
THAT YOU RECOMMENDED IN YOUR DIRECT TESTIMONY. DO YOU AGREE
WITH HIS POSITION?

A. In most respects, yes. In my direct testimony, I explained the merits of a "loop is a loop"
approach to the costing of network facilities, and stated that a failure to follow such an
approach could lead to cost and price distortions among UNEs. In his direct testimony,

1 Mr. Stegeman argued against such an approach. He now explains (p. 3) that he intended
2 to argue that the cost of a loop “must vary depending on the customer’s location and
3 service request,” and gives the example of an ISDN card as a service-specific cost.

4 I agree with this updated version of Mr. Stegeman’s testimony. There is certainly
5 no dispute that loop costs vary by customer location (this fact underlies the need for
6 geographic deaveraging of UNE loop rates), and I also agree that an additional cost that
7 may exist to provide a given service (different cards for ISDN is his example) should be
8 reflected. *This is not how BellSouth has performed the cost studies presented in this*
9 *proceeding, however.* Through the use of multiple scenarios and the allocation of shared
10 investments on a non cost-causative basis, BellSouth has artificially created differences in
11 loop costs. When these artificial cost differences are carried forward into rate differences,
12 distortions can and will be created in the potentially competitive markets that rely on
13 UNEs. Unless a specific piece of equipment is needed to provide a given service (such as
14 an ISDN line card), all costs should reflect the “loop is a loop” approach: loop costs
15 should vary by geographic area, but should not vary according to service.

16
17 Q. IN YOUR DIRECT TESTIMONY YOU POINTED OUT THAT BELL SOUTH’S NEW
18 LOOP MODEL, THE BSTLM, CALCULATES A NEED FOR FEWER FACILITIES
19 THAN OTHER COST MODELS YET CALCULATES COSTS THAT ARE EQUAL
20 OR HIGHER. DOES MR. STEGEMAN OFFER AN EXPLANATION?

A. No. He offers two arguments in defense of these anomalous results. First, he argues that other cost models that have been considered by this Commission (the HAI model generally sponsored by CLECs, and the BCPM generally sponsored by ILECs) are based on a different standard than the BSTLM, and that they specifically assume an efficient network design and efficient operation. While I disagree with his assertion that the standard to be applied is different (or with any suggestion that the costs to be calculated in this proceeding should be those of an inefficient carrier), his explanation fails for a different reason. Even though the HAI and BCPM utilize a so-called “hypothetical” network design, the results they produce are based on a network with more route miles than the BSTLM predicts. Setting aside a debate on appropriate methodology, Mr. Stegman’s argument could explain why the BSTLM might predict *more* facilities, but makes no sense as an explanation of why it predicts *fewer* facilities than the other models. The question here is a pragmatic rather than conceptual one: Why does a model that assumes that BellSouth will require fewer network facilities to serve a given area than were assumed by previous BellSouth model nevertheless generate costs that are higher than those produced by the previous model?

Mr. Stegeman’s second argument is that I have incorrectly calculated the number of route miles of facilities calculated by each model. He then offers a “corrected” table at page 10 of his testimony. Setting aside the disagreement regarding how the table should be created, Mr. Stegeman’s “corrected” values serve to prove my point equally well: the BSTLM calculates costs based on fewer total route miles of facilities than the HAI or

1 BCPM models. The salient question, therefore, remains the same: why are the costs
2 calculated by the BSTLM not correspondingly lower? BellSouth has offered no response
3 to this question.

4 Q. IN YOUR DIRECT TESTIMONY, YOU EXPLAINED WHY AN ALLOCATION OF
5 SHARED INVESTMENTS BASED ON “DS0 EQUIVALENTS” IS LIKELY TO
6 DISTORT COSTS AMONG DIFFERENT UNES. MR. STEGEMAN ARGUES THAT
7 THE INFORMATION CONTAINED IN YOUR EXHIBIT DJW-3 SUPPORTS THE
8 BELL SOUTH APPROACH. IS HE CORRECT?

9 A. No. The information cited by Mr. Stegeman, along with the additional information
10 contained in Exhibit DJW-3, indicates that – for each vendor – the equipment in question
11 is exhausted by the number of card slots (and therefore lines), and not the number of
12 “DS0 equivalents.” While each vendor describes the capacity in terms of bandwidth,
13 each clearly presents the available configurations as a series of trade-offs. In the end, it is
14 the number of card slots available that determines the capacity regardless of the types of
15 card (high or low bandwidth) that is placed in the slot. Since the fiber facility being used
16 has no capacity constrain in and of itself (beyond that of the electronics at each end), the
17 best means of reflecting cost-causation is to allocate costs based on the number of card
18 slots that a given circuit displaces, not the number of “DS0 equivalents” that happen to be
19 provided.

20

1 Q. AT PAGES 6-13 OF HER TESTIMONY, MS. CALDWELL ALSO ATTEMPTS TO
2 JUSTIFY THE USE OF "DS0 EQUIVALENTS" AS AN ALLOCATOR. ARE HER
3 ARGUMENTS PERSUASIVE?

4 A. No. Ms. Caldwell offers two arguments in support of BellSouth's flawed methodology.
5 First, she simply states that "BellSouth does not shift costs from one rate element to
6 another in a way that supports its competitive objectives." While I am glad to have
7 BellSouth's assurance in this regard, a simple assertion does not create a fact. As a
8 second defense, Ms. Caldwell utilizes, as she did in Louisiana, an example of a SLC-96
9 system. This system is obsolete, has not been deployed for years, and is not included in
10 BellSouth's own engineering directives. I can only assume that Ms. Caldwell is aware of
11 these facts. She continues to use this obsolete system, rather than a forward-looking one,
12 to illustrate her point, however. Unfortunately, the obsolete system described by Ms.
13 Caldwell (designed for copper feeder facilities) has fundamentally different cost
14 characteristics that the systems currently being deployed by BellSouth. There is no
15 justification for BellSouth's failure to reflect the cost-causation characteristics of these
16 forward-looking systems in its cost studies. If they did so, the shared investment in
17 question would be allocated on a per line, rather than per DS0, basis.

18
19 Q. IN YOUR DIRECT TESTIMONY, YOU EXPLAINED WHY BELL SOUTH'S USE OF
20 MULTIPLE AND INCONSISTENT SCENARIOS IN THE BSTLM CAUSED THE
21 COST RESULTS TO VIOLATE BASIC ECONOMIC PRINCIPLES AND THE

1 APPLICABLE FCC RULES. DOES MR. STEGEMAN JUSTIFY THE USE OF
2 MULTIPLE SCENARIOS?

3 A. No. In fact, Mr. Stegeman seems to suggest (pp. 16-17) that the use of certain inputs can
4 eliminate the need for the use of inconsistent scenarios. His less-than-ringing
5 endorsement of BellSouth's multiple scenario approach is found on page 17 of his
6 testimony: "multiple scenarios *may help* the user frame the possible future costs based
7 upon the particular cost question being asked" (emphasis added). Unfortunately,
8 BellSouth's filing indicates that it is at least equally likely that the use of multiple
9 scenarios may confuse the user of the model and result in the creation of cost results that
10 are not the answer to any meaningful question. Given this demonstrated possibility
11 (BellSouth's costs analysts fell into this trap), the most prudent course of action is to
12 utilize a single scenario with the appropriate engineering constraints. This is the
13 approach that I took to develop the cost results contained in Exhibit DJW-2.

14
15 Q. MS. CALDWELL ALSO ATTEMPTS TO JUSTIFY THE USE OF MULTIPLE
16 SCENARIOS IN HER TESTIMONY. DO YOU AGREE WITH HER REASONING?

17 A. Not at all. Ms. Caldwell attempts to justify the use of multiple scenarios – and thereby
18 relying on the increasingly hypothetical networks that she argues against in other places
19 in her testimony – based on certain user-adjustable inputs that BellSouth has selected for
20 each scenario. The point, of course, is that these inputs were made user adjustable. It is a
21 straight-forward matter to make appropriate adjustments to these inputs in order to

1 accommodate a mix of services in a single scenario (by changing BellSouth's copper
2 limit, for example). Doing so eliminates the need to use multiple (and mutually
3 inconsistent) scenarios, as BellSouth has done.

4
5 Q. AT PAGE 23, MS. CALDWELL ARGUES IN SUPPORT OF MULTIPLE SCENARIOS
6 IN ORDER TO DESIGN A NETWORK THAT IS CAPABLE OF PROVIDING ALL
7 POSSIBLE SERVICES TO ALL POSSIBLE CUSTOMERS. DO YOU AGREE THAT
8 THIS IS THE CORRECT COST QUESTION TO BE ANSWERED IN THIS
9 PROCEEDING?

10 A. No. If Ms. Caldwell is correct, the BSTLM is calculating a total network cost by
11 assuming the existence of a network that will provide the most expensive service to every
12 customer; in other words, BellSouth is assuming a 100% penetration rate for its most
13 expensive service. Such an approach is the ultimate in gold-plating and should be
14 rejected by this Commission.

15
16 Q. IN YOUR DIRECT TESTIMONY AND THAT OF MS. WILSKY, YOU DESCRIBED
17 CONCERNS WITH A SERIES SOFTWARE PROBLEMS THAT HAVE BEEN
18 EXPERIENCED WITH THE BSTLM. DOES MR. STEGEMAN PROVIDE A
19 SATISFACTORY RESPONSE TO THESE CONCERNS?

20 A. No. The problems that Commission Staff's and intervenors in other states have
21 encountered when attempting the run the BSTLM (including but not limited to ours) are

1 well documented; I am puzzled why Mr. Stegeman would now attempt to assume those
2 away. In addition, Mr. Stegeman makes several mysterious claims regarding the BSTLM
3 software.

4 First, he devotes more than two pages of his testimony to a discussion of the
5 problems that a user of the BSTLM may encounter if the model is run in a Windows ME
6 environment. As Mr. Stegeman should be well aware, the computer that I (and Ms.
7 Wilsky) attempted to utilize to run the BSTLM is operating in a Windows 98 SE
8 environment – the preferred operating software according to the BSTLM user manual.
9 The computer in question was purchased specifically for this purpose and meets each of
10 BellSouth’s stated criteria, yet problems continue. It is telling that Mr. Stegeman quotes
11 (p. 19) the BSTLM user manual, which describes configurations in which the BSTLM
12 software has “increased stability.” If the operating stability of the BSTLM software were
13 not a recognized problem, the section of the BSTLM user manual cited by Mr. Stegeman
14 would be unnecessary.

15 Second, Mr. Stegeman argues that the BSTLM does not require installation using
16 software with a specific release date. Such an assertion is odd, since it was BellSouth
17 representatives who first informed us of this problem and who ultimately provided the
18 necessary software.

19 Finally, Mr. Stegeman describes the testing (pp. 20-21) that the BSTLM has
20 undergone. Unfortunately, he is apparently describing the model as he created it, not the
21 model as it was filed in this proceeding by BellSouth. As I described in my direct

1 testimony, BellSouth made the decisions to disable certain functions of the BSTLM and
2 to use it in specific ways. As a case in point, an alteration to the default version of the
3 software made by BellSouth led to the need for a correction to be made as recently as
4 June 1, 2001.¹

5
6 Q. IN YOUR DIRECT TESTIMONY, YOU EXPLAINED WHY BELL SOUTH'S USE OF
7 "IN-PLANT" FACTORS CAN SERVE TO OVERSTATE TOTAL COSTS AND
8 DISTORT THE COST OF DIFFERENT UNES. DO YOU AGREE WITH MS.
9 CALDWELL'S JUSTIFICATION FOR SUCH AN APPROACH?

10 A. No. As I explained in my testimony, the BSTLM is capable of directly calculating
11 material placement costs at a very granular level. This is the best, and probably only,
12 means of accurately capturing geographic cost differences. Ms. Caldwell's defense of
13 BellSouth's simplistic factoring approach is that (1) the distortions run in both directions;
14 i.e. costs are overstated in some areas and understated in others (p. 38), and (2) it would
15 be difficult for BellSouth to collect the relevant data (p. 42). Neither of these assertions,
16 even if completely true, would justify BellSouth's decision to "lobotomize" the BSTLM
17 and substitute an approach that is incapable of capturing geographic cost differences. Ms.
18 Caldwell states (p. 42) that "the question is really one of 'perceived accuracy.'" I
19 disagree. The question is one of actual accuracy: if geographic cost differences are to be

¹ See Second Supplemental Testimony of D. Daonne Caldwell, which provides a corrected file necessary to duplicate BellSouth's results.

1 accurately reflected in UNE rates (as they must be), BellSouth must be required to
2 properly develop these costs on a bottom-up basis.

3
4 Q. IN YOUR DIRECT TESTIMONY, YOU DESCRIBE THE REQUIREMENTS
5 REGARDING UNE COMBINATIONS AND THE IMPORTANCE OF BELL SOUTH
6 MAKING THESE COMBINATIONS AVAILABLE. IN HER TESTIMONY, MS. COX
7 ARGUES THAT BELL SOUTH'S MORE RESTRICTED DEFINITION OF THE
8 STANDARD OUGHT TO BE SUFFICIENT. DO YOU AGREE?

9 A. Not at all. Ms. Cox makes three points in support of BellSouth's ongoing refusal to make
10 UNE combinations available as required. First, she argues that CLECs need not be
11 concerned with the limitations that BellSouth's position creates regarding the ability to
12 provide service to customers at new locations. There is absolutely no basis for BellSouth
13 to deny competitive alternatives to customers at new locations. Second, she argues that
14 as long as BellSouth serves the customer first, a CLEC can then serve that customer by
15 utilizing UNE combinations *if* the CLEC offers the customer the same service that
16 BellSouth offered them (i.e., the customer is "switched as is"). There is absolutely no
17 basis for BellSouth to require a CLEC to offer the customer the same service as BellSouth
18 or not at all – competition is about providing alternatives to customers. Third, Ms. Cox
19 argues that if a CLEC doesn't like BellSouth's restrictions on the availability of UNE
20 combinations, the CLEC can avail itself of more costly options. This "let them eat cake"
21 approach completely ignores that fact that the FCC (supported by the courts) has required

1 that UNE combinations be made available as a cost-effective means of serving these
2 customers. The availability of any number of non cost effective alternatives is irrelevant.

3
4 Q. IN YOUR DIRECT TESTIMONY, YOU EXPLAINED WHY BELL SOUTH SHOULD
5 NOT BE PERMITTED TO CHARGE A BUNDLED RATE FOR SWITCH FEATURES.
6 DOES THE TESTIMONY OF MS. CALDWELL OR MS. COX CHANGE YOUR
7 OPINION?

8 A. No. BellSouth's proposal would result in the double recovery of certain costs and is an
9 improper bundling of features. Ms. Cox attempts to justify this improper bundling by
10 arguing that "it is reasonable to assume that the rate a CLEC would charge its end user for
11 one vertical feature would more than cover BellSouth's proposed rate for all vertical
12 features." Better than any other statement in the company's rebuttal testimony, this
13 statement by Ms. Cox illustrates the monopoly mindset that BellSouth brings to this
14 proceeding. Ms. Cox is apparently alluding to the fact that BellSouth currently charges a
15 rate for vertical features that is hundreds, and sometimes thousands, of times the cost to
16 provide it (if any measurable cost exists at all). Ms. Cox's implicit assumption that such
17 a markup would exist in a competitive marketplace indicates a fundamental
18 misunderstanding of how competitive markets work. CLECs will not be able to maintain
19 BellSouth's monopoly pricing of these features, and will not be getting "something for
20 nothing" as Ms. Cox asserts (although her argument does demonstrate that BellSouth is

1 getting "something for nothing" today). Instead, CLECs will be priced out of the market
2 by BellSouth's inflated UNE rates.

3
4 Q. AT PAGES 14-18 OF HER REBUTTAL TESTIMONY, MS. CALDWELL TAKES
5 ISSUE WITH A NUMBER OF ENGINEERING ASSUMPTIONS THAT YOU USED
6 TO DEVELOP YOUR PROPOSED RATES. WHAT IS YOUR RESPONSE.

7 A. It is clear that Ms. Caldwell and I disagree factually on a number of these issues. For
8 example, at page 14 she argues that the cable length that should be assumed to go from
9 one floor of a building to another is more than twice the amount that would actually be
10 required. In doing so, Ms. Caldwell argues instead of taking a direct vertical route, the
11 cable should be assumed to meander about the building (thereby significantly increasing
12 its length). Such an assertion by Ms. Caldwell belies her lack of experience pulling
13 cables in this type of environment.

14
15 Q. IN YOUR DIRECT TESTIMONY, YOU DESCRIBED THE DEVELOPMENT OF
16 FORWARD-LOOKING EXPENSE FACTORS FOR BELL SOUTH. DO YOU AGREE
17 WITH MR. REID'S ASSERTION THAT SUCH AN APPROACH DOUBLE-COUNTS
18 PRODUCTIVITY?

19 A. No. Mr. Reid is apparently concerned with the fact that BellSouth's factoring approach,
20 as a gross estimation process, is already being applied to a forward-looking network with
21 a lower level of investment than is indicated in the company's embedded books of

1 account. Such an approach may reflect, in part, the fact that the forward-looking network
2 technologies require BellSouth to incur lower maintenance costs. BellSouth's approach
3 does nothing, however, to address the level of operating efficiency of BellSouth as a
4 company. These are two independent areas of inquiry that require independent
5 adjustments to BellSouth's historic level of cost.

6
7 Q. IN YOUR DIRECT TESTIMONY, YOU DESCRIBED THE APPROPRIATE RATES
8 FOR CAGELESS COLLOCATION. DO YOU AGREE WITH THE REASONING
9 UNDERLYING MR. SHELL'S ATTEMPT TO JUSTIFY HIGHER COSTS AND
10 RATES?

11 A. No. Over and over, Mr. Shell repeats the assertion that "Mr. Wood is assuming that
12 CLEC equipment is placed within BellSouth's equipment lineup when cageless
13 collocation is requested." Unfortunately, the assertion that Mr. Shell relies on for each of
14 his points is incorrect; I have made no such assumption. I have assumed, however, that
15 Bellsouth may not – pursuant to the FCC orders and corresponding rules -- physically
16 isolate the CLEC equipment or cause the CLEC to incur the costs associated with such
17 isolation. For this reason, the difference between "caged" and "cageless" collocation is
18 not simply the presence (or absence) of a cage, as Mr. Shell argues. It is instead a
19 fundamentally less costly means of providing collocation. While BellSouth is free to
20 incur any inflated cost to provide cageless collocation that it chooses, it is not free to pass
21 that inflated cost on to a CLEC.

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Q. IN YOUR DIRECT TESTIMONY, YOU ADVOCATED THE USE OF THE FCC'S LATEST PRESCRIBED DEPRECIATION LIVES FOR BELL SOUTH. DO YOU AGREE WITH MR. CUNNINGHAM'S ARGUMENTS REGARDING WHY THESE VALUES SHOULD NOT BE USED IN THIS PROCEEDING?

A. No. Mr. Cunningham's response basically consists of an assertion that BellSouth does not agree with the lives developed by the FCC. He states that "BellSouth has emphasized to the FCC many times that substantially more progress is needed in moving to lives that adequately reflect the current pace of technology and competitive changes." To date, the FCC has apparently been unpersuaded by BellSouth's "many" requests for changed depreciation lives.

Q. IN YOUR DIRECT TESTIMONY, YOU DEVELOPED AN APPROPRIATE COST OF CAPITAL FOR BELL SOUTH. DO YOU AGREE WITH DR BILLINGSLEY'S CRITICISM OF YOUR METHODOLOGY.

A. No. Dr. Billingsley takes issue with two primary areas of my calculations. First, he argues against a multi-stage model in a DCF calculation because of the increased complexity created by an increased number of variables. If such a standard is the correct one to be applied to the calculations made in this proceeding, the Commission must summarily reject BellSouth's use of the BSTLM. Second, Dr. Billingsley argues against the use of other Bell Operating Companies (and Tier 1 independents) as comparables. Instead, he

1 argues that a better proxy for BellSouth's financial risk is a collection of companies that
2 do business in markets that are unrelated to telecommunications. While Dr. Billingsly's
3 approach serves to increase the estimate of BellSouth's risks and thereby increase its
4 calculated cost of capital, he provides no justification for simply ignoring companies
5 operating in the same or similar markets while considering companies operating in
6 unrelated markets.

7
8 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

9 A. Yes.